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...menace

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NEWSPAPER

SECOND CLASS

Nation's Restaurant News®

The Weekly Newspaper of the Food-Service Industry

Vol. 23, No. 33 **Published every Monday by Lebhar-Friedman Inc.; $3 a copy, $29.50 a year** **August 14, 1989**

Domino's launches safety ads

By Bill Carlino

ANN ARBOR, Mich. — In an effort to weather the typhoon of driving-negligence charges sparked by more than 20 delivery-related deaths, Domino's pizza has rolled out a massive ad campaign asserting that the company is committed to safe driving.

Slated to appear in selected insurance, food-service, and police trade publications and on 21 million Domino's pizza box tops, the print ads are actually a signed statement from Domino's president, Dave Black.

In the ad he states that road safety has always been the first concern of the chain's nearly 80,000 drivers.

"One of the things we hope to clear up is public perception of the 30-minute delivery service," said Ron Hingst, a spokesman for Domino's. "Things like drivers attempting to deliver five to six pizzas within the 30-minute limit and paying the $3 refund out of their own pocket. These

*(See **DOMINO'S**, page 85)*

NRN Photo

David Houle, left, and Dee DeCarlo, owners of Bella Luna in Chicago, one of the many area restaurants forced to close.

Chicago operators fight seasonal dip

Change menus, add take-out in effort to boost sales

By Carolyn Walkup

CHICAGO — White-tablecloth restaurants in the western reaches of downtown are struggling to hold on in the face of little dinner business, high rents, and competition from restaurants in livelier evening locations.

The most recent restaurant to close in the area, Bella Luna, took in less money in May and June than in the traditionally slow month of January, according to David Houle, who operated the favorably reviewed regional Italian restaurant for nine months with his wife, Dee DeCarlo.

Other operators or managers who admitted to slow dinner business include Michael Lieberman of Michael Stuart's, Robert Vorachek of Zinc's, Rick Cohler of Red Kerr's, and Nancy Sage of Sage's on LaSalle.

Lieberman said competition from the many new restaurants in River North, a neighborhood that benefits from nightclubs, comedy clubs, and art galleries, has hurt downtown operators even though diners do not have to wait for tables at Michael Stuart's, as they do elsewhere.

"We have free dinner parking; we've lowered our prices and lightened sauces. We cater to our customers; we try harder," said Lieberman, whose 3-year-old contemporary American restaurant fills at lunch with financial district middle- and upper-income customers.

"I am scared to death; I am not a Levy or a Melman," he said, referring to Chicago res-

*(See **CHICAGO**, page 85)*

FOOD WATCH

Sfuzzi salutes pizza's creator

DALLAS — Sfuzzi Restaurants, in a special salute to Raffaele Esposito, the creator of the modern pizza, are holding a pizza festival through Sept. 4.

Sfuzzi Dallas, Houston, and New York will offer five special pizzas as well as suggestions for complementary wines.

The Queen Margherita pizza ($13) features Roma tomatoes, sweet basil leaves, and fresh Mozzarella. The recommended wine is a 1988 Terre di Tufo, Teruzzi & Puthod ($36).

Forest mushrooms,

*(See **FOOD WATCH**, page 85)*

Operators feel new tax bite

US revives forgotten levy

By Alan Liddle

WASHINGTON — Restaurateurs nationwide, who government officials concede might not have known of their liability, are being shocked and angered by stern notices they owe back federal taxes with penalties and interest.

The unexpected tax bills are exceeding $2,000 per unit in some cases, restaurateurs and National Restaurant Association officials indicated.

NRA officials say thousands of operators have been or could be caught up in the controversy but added that legislative relief might be just weeks away.

"I feel like I live in a Banana Republic, where an unscrupulous dictator has dusted off some obscure tax law so he can sock it to his constituents," veteran Southern California restaurateur John Ricci complained.

At issue is the Special Occupancy Tax, a tariff on retailers and other businesses that sell or use alcohol for commercial purposes.

Congress raised the annual fee in 1987 from a maximum of $54 to $250, which angered people already paying the tax and spurred bureaucrats to seek additional tax targets.

The Bureau of Alcohol, Tobacco & Firearms launched an aggressive campaign to collect the tax after assuming jurisdiction from the Internal Revenue Service in July 1987, and since then has collected $112 million.

"There are a lot of people out there who did not know that they owed the tax," Bureau of Alcohol, Tobacco & Firearms spokesman Dot Koester acknowledged. "But the law reads that we have to collect the tax for past years."

Business owners argue they should not be penalized with fines and interest for being unaware of a tax that the government made little effort to pub-

*(See **TAX**, page 4)*

Marriott, fast food take to the road

National chains hit turnpikes

By Bill Carlino

WASHINGTON — Striving to offer hungry motorists an array of familiar restaurant concepts, Marriott Corp. unveiled plans to feature nine national fast-food chains in the company's travel plaza locations along the Florida Turnpike.

Marriott's eight Florida sites will house up to three national franchises from a list that includes Mrs. Fields Cookies, Nathan's, Popeyes, Dunkin' Donuts, Sbarro, and Burger King.

"We know that branding works," said Francis "Butch" Cash, executive vice president of Marriott Corp. "But as good as Roy Rogers and Big Boy are, clearly, there was a consumer demand for more variety."

Marriott had originally veered from its travel plazas pairing of Roy Rogers and Big Boy in Delaware-and-Maryland-based units along the turnpike system.

In total, Marriott Corp. has more than 100 travel plazas on 14 highway systems.

*(See **MARRIOTT**, page 85)*

MUFSO PANEL TO FOCUS ON FORMULAS FOR SUCCESS — Page 3

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August 14, 1989

NEWS DIGEST

Jerrico accepts $620M bid from NY investment group

LEXINGTON, Ky. — Jerrico Inc., operator of the 1,525-unit Long John Silver's seafood chain, has agreed to be acquired for $620 million by an investment group led by DJS-Inverness & Co., the New York concern that arranged the recent buyout of S & A Restaurant Corp.

Jerrico's buyers plan to retain the company's current management, according to Warren Rosenthal, the restaurant operator's chairman. Senior executives will be offered equity in the company to be formed by the acquisition, Rosenthal said.

Also participating in the deal is Castle Harlan Inc., a New York merchant bank that controls a concern called Legend Capital Group L.P. The investment group's $24-per-share cash offer was unanimously endorsed by Jerrico's board.

The definitive purchase agreement was struck at a time when Jerrico's improved financial performance has rekindled Wall Street's interest in the company.

Burger King picks Sosa for Hispanic ad account

MIAMI — Burger King Corp., which operates the nation's No. 2 fast-food hamburger chain, has tapped San Antonio, Texas-based Sosa & Associates to handle its Hispanic promotion and advertising account.

In a related development, D'Arcy Masius Benton & Bowles/USA, one of Burger King's two domestic agencies, said it has agreed with Sosa to acquire 49 percent of the firm.

Connill Advertising, a subsidiary of Burger King's other domestic agency, Saatchi & Saatchi, was among those passed over for the account.

McDonald's recently pulled its $6 million Hispanic account from Connill, citing conflict of interest.

El Pollo Asado pins hopes on last-ditch marketing blast

PHOENIX, Ariz. — Cash-strapped El Pollo Asado Inc. said that it will be forced to restructure or discontinue operations if a last-shot marketing plan fails to turn a profit.

The company said it will launch a three-month marketing campaign promoting its nine company-owned and 16 franchised Mexican Cafes, 18 of which were converted from the company's charbroiled chicken concept.

El Pollo Asado said that it is considering various restructuring alternatives, including raising additional capital, and that it has postponed its annual shareholders meeting to reduce costs.

Rax begins testing of credit cards

COLUMBUS, Ohio — Rax Restaurants Inc., the quick-service sandwich chain based here, is rolling out a 33-store credit card test.

In 32 units here and a single location in Buena Vista, Fla., Rax will be accepting Visa, MasterCard and the Discover Card. A company spokesman said the test will last about three months.

National Pizza raises stake in Skipper's Inc.

PITTSBURG, Kan. — National Pizza Co. has advised Skipper's Inc. that it intends to propose a friendly acquisition of the seafood chain operator and revealed that it has upped its stake in the company to 9.4 percent.

National — Pizza Hut's largest franchisee — made its first bid for the Bellevue, Wash.-based fast-food seafood chain operator earlier this year. The attempt was thwarted when Skipper's urged its shareholders to hold out for a higher price and Pizza Hut threatened to revoke National's franchise agreement.

An executive at National said Pizza Hut has taken "no exception" to the franchisee's latest efforts.

Dobbs acquires assets of Chef-Aire caterers

MEMPHIS, Tenn. — Dobbs International Services Inc. said it has agreed to acquire Chef-Aire Airline Caterers Inc., which filed for Chapter 11 protection earlier this year.

Terms were not disclosed.

The acquisition includes in-flight catering kitchens in Albany and Islip, N.Y., and Providence, R.I.

Dobbs, a subsidiary of The Greyhound Corp., is the second largest domestic airline caterer, serving more than 60 scheduled airlines from 48 flight kitchens.

Wendy's posts flat profits, 2% rise in revenue for 2nd Q

DUBLIN, Ohio — Wendy's International Inc. said price promotions and higher food costs kept its net income flat at $9.6 million, on a 2-percent rise in revenue, to $279.9 million, for the second quarter ended July 2.

The latest quarter includes a gain of $255,000 from the early repayment of debt.

Comparable-store sales were up 4 percent, the company said, as were menu-price hikes. And restaurant margins declined to 9.7 percent of sales, from 13.6 percent last year.

For the first six months, Wendy's operating profits plunged 22 percent, to $10.2 million, despite a 2-percent gain in revenues, to $539.4 million.

But a gain of $5.2 million from an accounting change and a $594,000 gain from early retirement of debt made final net $16 million.

Shoney's franchisee faces racial bias suit

MEMPHIS, Tenn. — The federal Equal Employment Opportunity Commission has filed suit in U.S. District Court here alleging TPI Restaurants Inc. — the owner of 21 area Shoney's restaurants — engaged in discriminatory hiring practices.

The suit charges the practices date to at least January 1983.

New York-based TPI, which could not be reached for comment, has only owned the restaurants since September, when it acquired previous owner Shoney's South Inc.

The lawsuit alleges that the company failed to hire blacks in customer contact jobs at its units, and that it has continually destroyed employee records.

In April, the NAACP Legal Defense Fund filed a similar suit against TPI's franchisor, Nashville-based Shoney's Inc.

Forrest City operators face 'hamburger tax'

FORREST CITY, Ark. — Forrest City is levying a 1 percent "hamburger tax" on all restaurants, lodging places and grocery stores that sell freshly prepared foods.

The city, population 13,000, said the estimated $70,000 to $80,000 the tax will generate will be used for advertising and promotion.

Donatello's Rossi sells Monterey Hotel

MONTEREY, Calif. — Hotelier A. Cal Rossi Jr. has transferred ownership of his financially troubled Monterey Plaza Hotel here to Town Development Co., the U.S. subsidiary of a Japanese development firm, in a deal valued at about $38 million. Town Development's managing partner in the venture is Trusthouse Forte.

The 4-year-old, 291-room Monterey Plaza sits on a Cannery Row property owned by area restaurateurs and businessmen Ted J. Balestreri and Burt Cutino.

About $28 million of the $38 million sale price was applied to a settlement between Rossi and American Savings, a now insolvent savings and loan. The new owners reportedly assumed an additional $10 million of the hotel's debts.

The sale of the hotel leaves Rossi with the Donatello Hotel and award-winning Italian restaurant of that name in San Francisco.

FINANCIAL NEWS

JB's posts net earnings of $992,000 for 3rd Q

By Rajan Chaudhry

SALT LAKE CITY — Four years after explosive growth plunged JB's Restaurants Inc. into the red and one year after the company's pullout from the Big Boy franchise system, JB's is moving away from price promotions and posting strong same-store sales gains.

For its third quarter ended July 3, JB's reported net income of $992,000, compared with a loss of $815,000 a year ago, on a 13-percent rise in revenues, to $35.2 million.

Last year's loss reflects a one-time charge of $1.6 million for the write-off of license rights resulting from JB's withdrawal from the Big Boy system.

But with food costs moderating, expansion staying slow but steady, and sales trending up, JB's is well positioned for the future, analysts said.

JB's Restaurants
Salt Lake City, Utah
Founded: 1961
Number of units: 118
1988 revenues: $99.7 million
1988 average unit sales: $899,000
Chairman and ceo: Clark D. Jones

"Gradual expansion of its restaurant base will enable JB's to approach full recovery in fiscal '90," predicted analyst Claire Mencke of Value Line.

And the withdrawal from the Big Boy system will save the company $1 million in franchise fees annually and open the door for JB's to franchise its own name, noted Roger Lipton, managing director of Ladenburg, Thalmann & Co.

The company had 118 restaurants in operation at quarter's end, six more than at the end of the prior year quarter, and it plans to add about 10 units a year.

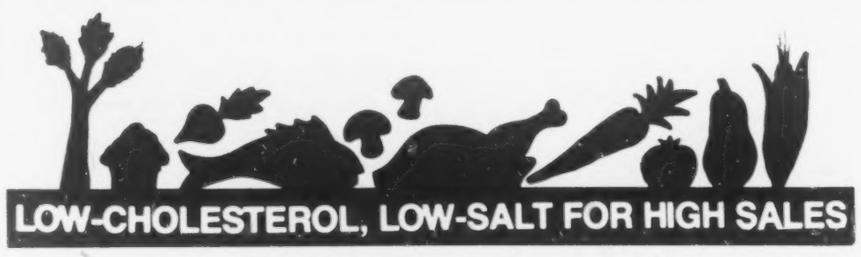
In April JB's raised the price of some menu items and cut back on price promotions to boost margins.

As a result of the higher prices and a 7-percent increase in comparable-store sales, the company's operating income increased 21 percent in the third quarter, it said.

For the first nine months of the year, JB's posted net income of $1.4 million compared with a loss of $390,000 in the same period last year, and sales improved 10 percent, to $82.6 million.

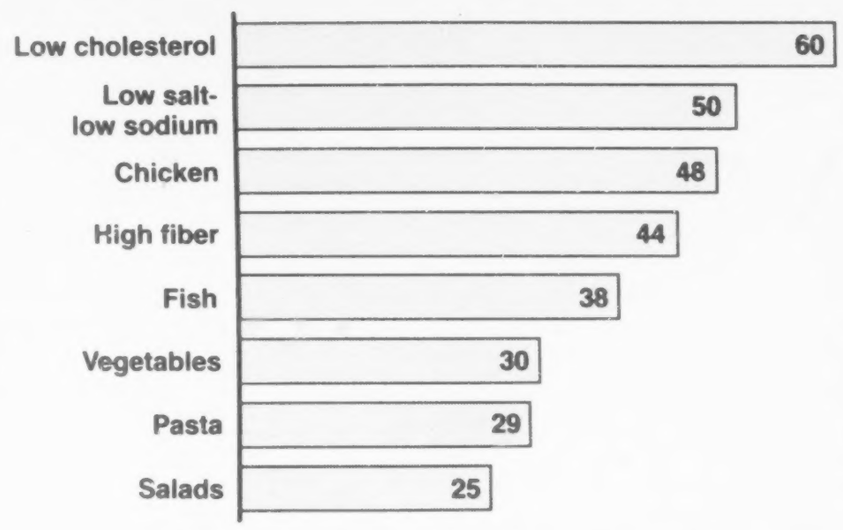
FACT FILE

A look at the statistics shaping the industry



LOW-CHOLESTEROL, LOW-SALT FOR HIGH SALES

(types of food with greatest growth potential, in percent)



Source: Research Performance Inc., Tarrytown, N.Y., 1989 survey of 300 food-service operators.

Catch A Rising Star buys NY club

By Rajan Chaudhry

NEW YORK — Catch A Rising Star Inc. said that it has acquired the original Catch a Rising Star club here from its chairman and chief executive, Richard Fields, for 1.25 million common shares — worth about $468,750 — and that it has completed private placements totaling $3 million.

Before the acquisition, the company — which operates seven comedy and music clubs and develops radio, TV, and home video programs — operated the club here under a long-term management contract.

The purchase is subject to the approval of the New York State Liquor Authority and the New York City Alcohol Beverage Control Board.

For the year ended March 31, Catch A Rising Star lost $497,260 on revenue of $3 million. And last year the company lost $1.3 million on revenue of $1.2 million.

The company said it would use the proceeds of its private placements for general working capital, continued expansion of its nightclub operations, and refinancing of short-term debt.

In February the company sold 25 units consisting of 750,000 Class A common shares, 5,000 shares of redeemable preferred stock series C, and certain net profits of TV specials that it developed and owned to Seavest Partners and three affiliated investors for a total of $507,000.

Catch a Rising Star also sold 5 million shares of its class A common stock and 680,000 shares of its class B common stock at a penny per share and 12,500 shares of its series D preferred stock at a price of $100 a share, for a total of $1.3 million, to Puritan Partners, an investor group based here.

As part of its obligation, Puritan Partners provided two secured loans — a $1 million two-year loan and a $250,000 revolving loan, both obtained at prime rate. The company also issued warrants to purchase 500,000 shares of the company's class A common stock.

Puritan Partners will place three members on Catch a Rising Star's board of directors, the company said.

FOOD PRICE OUTLOOK

Green coffee prices remain low

It hasn't shown up yet in the prices food-service operators pay for **roasted coffee,** but **green-coffee** prices continue at bargain basement levels. The International Coffee Organization failed in its attempt to impose quotas to control prices. That has encouraged some producing countries with large supplies to try to increase their market share. Brazil, Colombia, Mexico, and Indonesia are all selling at low prices here.

But U.S. coffee roasters are buying cautiously. They have good supplies of higher-priced beans, and the heavy coffee season doesn't start for another month or so. When buying starts in earnest, expect green-coffee prices to climb.

Low **apple** prices may move higher. The U.S. Department of Agriculture is buying large quantities of fresh apples for school lunch and other domestic feeding programs. The idea is to reduce the heavy surpluses caused by the recent Alar scare.

Lettuce prices have remained higher than normal so far this summer, with demand strong. Truck availabilities have been better than normal this summer, although shortages have occurred from time to time . . . Fresh **broccoli** prices have been trending down as freezers wrap up their packs and fresh demand stagnates during the summer months.

Despite a good **strawberry** crop along California's Central Coast, a frozen-strawberry shortage may be in sight. Fresh market demand has been strong, so prices have ranged above freezers' ceilings. Deliveries to freezers are also down in Washington and Oregon. Combine that with Mexican shipments down a third from last year's, and shortages — with higher prices — may be in sight.

— Patt Patterson

NRN FINANCIAL DIGEST

Church's loses $4.5 million

JEFFERSON, La. — Church's Fried Chicken Inc. said the closing of about 200 company stores over the past year resulted in losses of $4.5 million for the quarter ended June 11.

Revenue dipped to $99.4 million from $99.9 million a year ago.

In last year's second quarter, the company posted net income of $2.2 million

Church's losses for the June-ended six months totaled more than $8.4 million on a 1-percent increase in revenue, to $187.6 million.

Church's — which operates and franchises about 1,300 fast-food chicken restaurants — was recently acquired by Alvin Copeland, owner of the Popeyes Famous Fried Chicken chain.

Skyline Chili to close six units

CINCINNATI — Skyline Chili Inc. said it would close six unprofitable company restaurants at a cost of about $650,000.

Skyline would not reveal the location of the restaurants targeted for closing, except to say all were outside Cincinnati.

Elimination of the cash-draining restaurants should boost operating profits by at least 15 percent, the company said.

The shutterings will trim the number of Skyline's company-operated restaurants to 25. It also has 51 franchised units.

Furr's/Bishop's boosts earnings 34%

LUBBOCK, Texas — Furr's/Bishop's Cafeterias L.P. squeezed a 34-percent increase in earnings, to $2.7 million, from a 5-percent rise in revenues, to $74.5 million, for its second quarter ended July 1.

The company attributed the gains to higher ticket averages, increased guest traffic, and the addition of two units in the fourth quarter of 1988.

For the July-ended six months, revenues increased 7 percent year over year, to $143.9 million. Earnings were $433,000 compared with a loss of $36,000 in the same period of 1988.

Ashland buys 66 7-Eleven stores

MINNEAPOLIS — SuperAmerica, the retail gasoline division of Ashland Oil Inc., has bought 66 7-Eleven stores here and in Wisconsin from the Southland Corp.

Terms were not disclosed.

Ashland, Ky.-based SuperAmerica said it would put up its own banner on the stores.

SuperAmerica already owns 73 stores in the Minneapolis-St. Paul area.

FOCUS | OPINION

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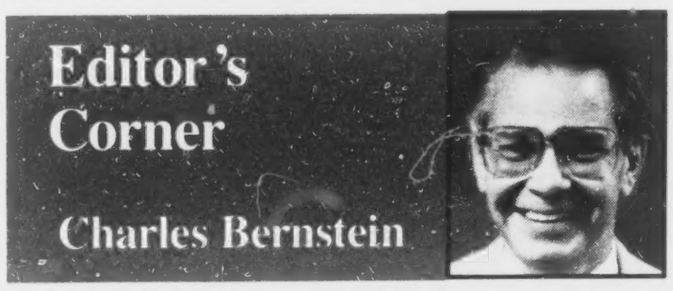
Conglomerate menace stalks chains

We thought it was a travesty when Asher Edelman acquired Ponderosa in early 1987. For Edelman it simply meant adding another trophy to his house of investments and subsidiaries. For Ponderosa it meant the end of a dream in which president Thomas J. Russo had apparently turned around the previously problem-ridden family steak-house chain.



For Russo it signified an intolerable situation in which his authority and momentum would be undercut by a bottom-line-oriented ownership not interested in strengthening Ponderosa or looking out for the chain's future. So Russo walked away, and eventually he ended up as chief of a major housewares group.

Ponderosa proceeded to drop fast under new management, and after one year Edelman at least partially recouped his investment by selling Ponderosa to Metromedia, led by multi-billionaire tycoon John Kluge. Although he well might give Wal-Mart's Sam Walton a tussle for his title of richest person in America, it is difficult to see how he or Metromedia is qualified to operate Ponderosa.

Kluge had sold Metromedia's radio and television operations to concentrate on telecommunications, robotics printing, and computer software companies as he built an empire of diversified investments.

But who would have imagined the scenario that has unfolded in recent months?

First, Russo was supposedly offered all kinds of inducements to lure him back to Ponderosa, which faltered under management headed by former Pizza Hut franchisee executives.

Russo, who has adjusted to the housewares field but would dearly love to return to food service, rejected the overtures. He simply would not work for Metromedia, a company that did not seem dedicated to anything about food service except profit potential or possible use as a tax-loss writeoff.

Russo was smart to stay away. But to his credit, Kluge remained determined to find new management to replace the team that Edelman had hired.

Enter Michael Jenkins, who left the S & A Restaurant Corp. after rising to chairman, became president of T.G.I. Friday's in late 1986, and resigned a year later to try to acquire S & A or another chain.

Just a few months ago Jenkins was close to finalizing a deal to acquire Michael Grisanti's Italian dinner houses from Imasco, the parent of Hardee's, which had astutely decided it wanted to focus completely on Hardee's. But the Jenkins deal fell through at the last minute when the package price appeared to be more than it was worth.

The next thing we knew, Jenkins resurfaced as the new president of Kluge's Ponderosa. To some observers, that made no sense. But with the type of contract that Jenkins received from Kluge, he could not go very far wrong in the short or long term.

Now we find that, unknown to almost everyone, Kluge is trying to shape his own food-service empire.

When London-based Grand Metropolitan, which acquired Pillsbury and all its properties in January, recently sold its S & A subsidiary, S & A chief executive Donald Slater led a group consummating the leveraged buyout with the help of a New York investment company, DJS-Inverness.

However, it has been discovered that the power behind the deal is none other than Metromedia. Documents obtained by Nation's Restaurant News indicate that Metromedia would buy 15 percent of S & A's common shares and would have a clear option to purchase the other 85 percent from Citibank Ventures Capital, the principal banker in the deal, within three years.

Thus Metromedia and Kluge well might become the major owner of S & A as well as Ponderosa. They would be entitled to control S & A's management and operations under the agreement terms.

This would give Metromedia the wide-segment range of the Ponderosa family steak houses and S & A's Steak & Ale dinner houses. Steak & Ale has tried with extremely mixed results to diversify its menu so that it is not so dependent on steak (a goal that is a non sequitur since by definition the chain's trump card has to be steak). S & A's Bennigan's would be part of the deal, too.

Whether Jenkins knew about this impending deal when he accepted the Ponderosa position and whether he would become a group chief of all the operations is speculative. But the one principle this again dramatizes is the continued menace from the conglomerate and investment mentality that likes to view all food-service operations merely as "in play," be it Kingsbridge Capital trying to pluck off Dunkin' Donuts or Metromedia acquiring Ponderosa and maybe S & A.

They are all so quick to see flashing dollar signs but so reluctant to put any effort into building value and quality, which are so desperately needed in any food-service operation.

LETTERS

Recognition means a lot to 'Educator of Year'

Editor, NRN:

Just wanted to say thanks for recognizing my Educator of the Year award in your June 5 issue and the photos from my "How to increase food and beverage sales" seminar that you published in your May 28 issue.

I appreciate being recognized in such a fine publication.

— Jim Sullivan
president
Penguin Productions
Denver

Industry problem stems from reality, not image

Editor, NRN:

In your July 17 Editor's Corner, "Campus nightmare: Industry recruiters," you echo the National Restaurant Association and other industry associations' assertions that "ours is a special world" and that food service suffers from an *image* problem. As one who has worked about every possible job in food service coast-to-coast over the past 30-plus years — from pot washer to gm to consultant to college prof and researcher, etc. — I disagree.

Food service doesn't have nearly the problem attracting people that it does retaining them. Our industry doesn't have an image problem; it has a *reality problem*. The rub isn't that outsiders fail to see golden opportunities; it's that insiders experience junk jobs and abusive management.

There's a growing *in*flux of students enrolling in culinary and hospitality management programs coincidental with the growing *out*flux of previously-committed and highly talented people from food-service *and hotel* companies. This suggests to me that we should focus our sights not so much on "selling the sizzle" as on delivering the steak.

Top-drawer hospitality marketers know that it costs 10 times as much (in advertising and personal selling) to persuade someone to become a first-time customer as it does to persuade that guest (with a great experience) to become a repeat customer. They also know that word-of-mouth (from satisfied customers) is the best advertising they can get, and it's free.

It must be awfully frustrating for some hospitality back-door marketers (recruiters) to try to keep up with their companies' "hole in the bucket." It's getting tougher and tougher to keep 'em coming as fast as they're leaving.

Finally, Mr. Bernstein, fairness, I believe, demands an apology from Nation's Restaurant News. No, not for the parts of your editorial with which I disagree. No, for the headline.

Nightmare? If I've implied that all food service jobs are completely junk and all managers totally abusive, clearly I've been excessive. But no farther from the truth than your headline is.

— Pete Stevens
East Lansing, Mich.

Columns hit bull's-eye on needy, garbage issues

Editor, NRN:

I want to tell you how *marvelous* two of your more recent columns were (not that all of them aren't wonderful).

I refer to "Stronger effort essential to aid hungry" and the "Garbage crisis: Operators must act now."

Once again, you're right on the money!

— Maryann L. Brunner
InterAction
(American Council for Voluntary International Action)
New York